

Government Programs for Fiscal Years 1963 and 1964

Outlays To Continue Rise

THE Federal Budget for the fiscal year 1964, presented to Congress in January of this year, shows that the Government intends to increase its demand for the Nation's output of goods and services by just over \$3½ billion from the preceding fiscal year's level. This increase is about \$½ billion less than the \$4½ billion rise estimated to fiscal 1963. The Budget estimates are predicated upon a rise in the Gross National Product of about \$25 billion

importance of Government purchases as a factor in the increase of total GNP. The somewhat reduced impact of direct Federal Government demand on the expansion in output of goods and services is in line with the Administration's decision to stimulate economic growth by foregoing revenues rather than by raising expenditures.

Federal fiscal position—comparison of budget and national income bases

The Budget document shows the Federal fiscal position on three different bases: The administrative budget, the consolidated cash statement or cash budget, and the national income and product accounts. Table 1 presents a summary of the Federal Government's receipts and expenditures in terms of these three measures. The *administrative budget* generally serves as a basis for congressional consideration of government programs. It envisages expenditures of \$98.8 billion for fiscal 1964, an increase of \$4½ billion over the preceding year, while receipts, at \$86.9 billion, are expected to rise by just under \$1½ billion. This would result in a deficit of \$11.9 billion, as compared with \$8.8 billion in the current fiscal year.

The *cash budget*, which measures the flow of transactions (excluding borrowing) between the Federal Government and the public, differs from the conventional budget primarily because it includes trust-fund activities and net expenditures of government-sponsored enterprises. On this basis, expenditures in fiscal 1964 are estimated to rise by \$5½ billion to \$122.5 billion and receipts by \$3½ billion to \$112.2 billion, resulting in a deficit of \$10.3 billion, \$2 billion larger than that estimated for fiscal 1963.

In terms of the *national income and product accounts*, expenditures for fiscal 1964 are estimated to rise by the same amount as on a cash basis, \$5½ billion, but receipts would increase somewhat less, by \$2½ billion, resulting in a rise of \$3½ billion in the deficit. The national income and product accounts budget is designed to measure the direct impact of Federal fiscal activities on the Nation's current flow of income

Table 1.—Federal Government Receipts and Expenditures Fiscal 1962–1964
(Billion dollars)

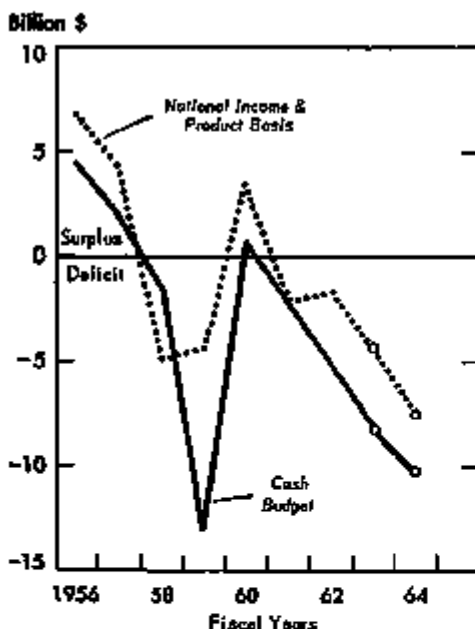
	1962 actual	1963 estimate	1964 estimate
Administrative Budget:			
Receipts.....	81.4	85.5	86.9
Expenditures.....	87.8	94.3	98.8
Surplus (+) or deficit (-)	-6.4	-8.8	-11.9
Cash Budget:			
Receipts.....	101.0	108.4	112.2
Expenditures.....	107.7	118.5	122.5
Surplus (+) or deficit (-)	-6.7	-10.1	-10.3
National income and product accounts:			
Receipts.....	104.0	108.8	111.4
Expenditures.....	110.6	113.1	118.8
Surplus (+) or deficit (-)	-6.6	-4.3	-7.4

1. Figures in brackets exclude the effects of the Revenue Act of 1962 and the 1963 administrative depreciation reform in order to afford comparability with the data published so far for 1963 in the National Income and Product Accounts tables. Estimates of these effects were made by the Bureau of the Budget and the Treasury Department for calendar years 1962 and 1963 for incorporation in the Budget estimates; conversion to fiscal year basis made by OBE.

Sources: The Budget of the United States for Fiscal Year Ending June 30, 1964 and U.S. Department of Commerce, Office of Business Economics.

FEDERAL GOVERNMENT FISCAL POSITION

Deficit on National Income and Product Basis
It Expected to Rise Further in Fiscal 1964, but
Will Remain Less Than Cash Deficit



Estimates from the Budget of the United States for Fiscal Year 1964

U.S. Department of Commerce, Office of Business Economics

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in the current calendar year and an even greater increase in GNP in calendar year 1964 due to the stimulating effects on economic activity of the Administration's proposed tax programs. This implies a decrease in the relative im-

and output. This differs from the cash budget in various major respects. On the receipt side, the cash budget includes taxes at the time they are collected, while the national income accounts record business taxes when the liability is incurred. Accordingly, the national accounts reflect more quickly changes in the pace of business activity than do the other budget measure-

ments. On the expenditure side, the national income accounts generally record purchases at the time of delivery rather than when payment is made. Affecting both, receipts and expenditures, is the exclusion from the national accounts of transactions in financial assets and liabilities. The effects on current economic activity of such transactions are recorded under the particular type of expenditure which they stimulate, such as private investment, consumption, or exports. As shown in table 2, in fiscal 1964 the major differences between the cash budget and the national income accounts arise from such financial transactions while the timing differences are negligible for this period.

Federal receipts reflect tax proposals

Adoption of the Administration's tax proposals is assumed and is an important factor in the revenue estimates for fiscal 1964. The total tax program implied in the Budget envisages cuts in income tax rates totaling \$13½ billion, partly offset by structural reforms which are estimated to yield \$3½ billion, leaving a net reduction of about \$10 billion. The reductions are scheduled to be spread over 3 years, the first part becoming effective January 1, 1963. Reductions in personal income tax rates would be the most important element in the revenue loss for fiscal 1964. As a result of the proposed changes, disposable personal income in the second

half of calendar 1963 is expected to be nearly \$6 billion higher than it would have been under present rates. Despite the stimulating effect of this increase, the Budget estimates, which are based upon the assumption that the tax program will be enacted in the form proposed, postulate only a moderate increase in total personal incomes and employment for calendar 1963.

Personal incomes are expected to rise by \$19 billion, to \$459 billion, during calendar year 1963, \$5 billion less than in 1962, when the economy was recovering from the 1961 recession. This rise would not be sufficient to fully offset the effects of the proposed income tax rate reductions. As a result, personal income tax revenues are budgeted to decrease in fiscal year 1964. On a national income and product account basis, this decrease is estimated to amount to \$1½ billion.

Corporate income tax liabilities in fiscal year 1964 would not reflect much of the proposed rate reductions as structural reforms would come close to offsetting these. With corporate profits before taxes estimated to rise by \$2 billion in calendar year 1963 and at a somewhat faster rate in 1964, corporate tax liabilities would rise by \$1½ billion in fiscal 1964. These figures exclude the effects of the corporate tax legislation enacted in 1962, for which no actual data are available as yet. The budget estimates imply that these effects would probably amount to a reduction in corporate tax liabilities of about \$2 billion in both the fiscal years 1963 and 1964.

Indirect business tax accruals generally should rise in line with the expected increase in economic activity. The estimated \$½ billion increase in such taxes assumes the passage of legislation extending the present rates of those excise taxes which are due to either decline, or expire, at the end of the current fiscal year. In addition, the Administration is proposing new user charges on transportation which would impose a 5-percent tax on air-freight as well as a tax on fuels used in aviation and in transportation on inland waterways.

Social insurance contributions are to increase by \$2 billion in fiscal 1963 and by another \$1½ billion in fiscal year

Table 2.—Relation of Federal Government Receipts and Expenditures in the National Income Accounts to the Budget
(Fiscal years, billions of dollars)

	1962 Actual	1963	1964
		Estimate	
RECEIPTS:			
Budget receipts.....	81.4	85.6	86.9
Less: Intragovernmental transactions.....	3.8	3.0	4.2
Receipts from exercise of monetary authority.....	1.1	(*)	(*)
Plus: Trust fund receipts.....	24.3	29.0	29.5
Equals: Federal receipts from the public (consolidated cash receipts).....	101.9	101.6	112.2
Adjustments for agency coverage:			
Less: District of Columbia revenues.....	.3	.4	.4
Adjustments for netting and consolidation:			
Plus: Contributions to Federal employees' retirement funds, etc.....	1.8	1.8	1.0
Less: Interest, dividends, and other earnings.....	1.0	1.1	1.3
Adjustments for timing:			
Plus: Excess of corporate tax accruals over collections; personal taxes, social insurance contributions, etc.....	2.5	1.4	—1
(Effects of Revenue Act of 1962 and 1962 Administrative depreciation reform).....	(.8)	(2.2)	(2.4)
Adjustments for capital transactions: 1			
Less: Realization upon loans and investments, sale of government property, etc.....	.8	1.4	1.0
Equals: Receipts—national income accounts.....	104.6 (104.6)	108.8 (111.1)	111.3 (112.0)
EXPENDITURES:			
Budget expenditures.....	87.8	91.3	96.8
Less: Intragovernmental transactions.....	3.8	3.0	4.2
Accrued interest and other non-cash expenditures (net).....	1.8	.9	1.5
Plus: Trust fund expenditures.....	24.1	27.1	28.0
Government-sponsored enterprise expenditures (net).....	1.1	.1	.4
Equals: Federal payments to the public (consolidated cash expenditures).....	107.7	110.8	122.6
Adjustments for agency coverage:			
Less: District of Columbia expenditures.....	.3	.4	.4
Adjustments for netting and consolidation:			
Plus: Contributions to Federal employees' retirement funds, etc.....	1.8	1.8	1.0
Less: Interest received and proceeds of government sales.....	.9	1.4	1.3
Adjustments for timing:			
Plus: Excess of interest accruals over payments on savings bonds and Treasury bills.....	.7	.6	.6
Excess of deliveries over expenditures and miscellaneous items 2.....	1.1	.7	.8
Less: Commodity Credit Corporation foreign currency exchanges.....	.9	1.0	1.0
Adjustments for capital transactions: 3			
Less: Loans—FNMIA secondary market mortgage purchases, redemption of IMF notes, etc.....	2.1	2.4	2.4
Trust and deposit fund items.....	1.2	1.4	1.2
Purchase of land and existing assets.....	.1	.1	.1
Equals: Expenditures—national income accounts.....	106.7	113.2	119.8

* Less than \$50 million.

1. See footnote 1, Table 1.

2. Consist of transactions in financial assets and liabilities, land and secondhand assets. Acquisition of newly produced tangible assets are included in expenditures for goods and services as defined in the national income and product accounts.

3. Includes not change in Commodity Credit Corporation guaranteed non-recourse loans and increase in clearing account.

Sources: "The Budget of the United States for the fiscal year ending June 30, 1964," and Office of Business Economics, U.S. Department of Commerce.

1964. A statutory rate increase of one percentage point, from 6% percent to 7% percent, in OASI taxes became effective January 1, 1963.

Defense purchases major factor in Federal expenditure rise

Rising outlays for national security will be, as in the past several years, the main cause for the \$3½ billion increase in Federal purchases during fiscal 1964. (See table 3.) However, increases in national defense purchases have been moderating from \$4 billion in fiscal 1962, to the \$3½ billion estimated for the current fiscal year and, finally, to \$3 billion programmed for fiscal 1964. About half of the 1964 increase is for space exploration, the other half for Department of Defense purchases.

Table 4 shows the breakdown of budgetary expenditures programmed for the Department of Defense. The \$1.2 billion increase in budgetary expenditures for military personnel is for the most part accounted for by a proposed military pay rise. This is to be effective October 1, 1963, and is estimated to cost \$0.9 billion in fiscal 1964. The number of active duty personnel is to

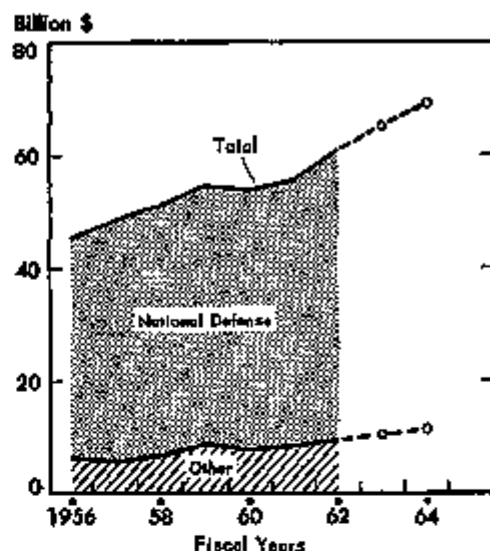
remain virtually unchanged, which is also reflected in the relatively very small increase foreseen in operation and maintenance expenditures. Purchases of equipment are scheduled to rise a little under \$1 billion, about in line with the increase programmed for the current year. Expenditures for aircraft and missiles are expected to remain virtually unchanged from the 1963 level, but outlays for ships and the ordnance and vehicles category are slated to rise. Outlays for family housing of military personnel are to increase slightly, while military construction and civil defense programs are to remain at the fiscal 1963 levels. Military assistance to foreign nations will reflect a step-up in deliveries of equipment and supplies in 1963 which is expected to fall back again in 1964 to the 1962 level.

Aside from actual expenditures for defense purchases, the economy will also be affected by the placement of defense orders which will be paid for in later years. Thus the Defense Department expects to make commitments to business and to increase obligation funds for the procurement of equipment

FEDERAL GOVERNMENT PURCHASES OF GOODS AND SERVICES*

* Expected to Rise by About \$4 Billion a Year in Fiscal Years 1963 and 1964

• Bulk of Rise Concentrated in National Defense



* Before deduction of Gov't sales

• Estimates from the Budget of the United States for Fiscal Year 1964

U.S. Department of Commerce, Office of Business Economics

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by about \$2 billion in excess of the 1963 flow of orders.

Other national security programs, such as atomic energy development and stock-piling of strategic materials, are not scheduled for any further expansion.

Nondefense purchases are projected to rise by almost \$1 billion over the fiscal 1963 figure. Purchases other than those by the Commodity Credit Corporation are scheduled to rise by about \$1½ billion, but CCC inventory acquisition is expected to decline by roughly \$½ billion because heavy additions to cotton stocks estimated for 1963 are to be sold off in 1964.

The increase in other nondefense purchases reflects to a large extent the full year impact of the first step of the civil service pay rise enacted last year and the second step which is to become effective January 1964. The remainder of the increase in Federal purchases is accounted for by higher outlays for the conservation and development of natural resources, the improvement and modernization of the Federal airways system and relatively small increases for other Government programs, such as the authorization given the Weather Bureau last year to broaden the meteorological satellite program.

Table 3.—Federal Receipts and Expenditures in the National Income Accounts, 1962-1964
(Billions of dollars)

	Fiscal Year			Quarterly, seasonally adjusted at annual rates			
	1962 Actual	1963 Estimated	1964 Estimated	1962			
				I	II	III	IV
Receipts: excluding the effects of the Revenue Act of 1962 and the 1962 Administrative depreciation reform¹							
Personal tax and nontax receipts	51.6	50.4	48.3	48.0	49.3	48.8	50.1
Corporate profits tax receipts	22.8	23.5	22.3	23.0	23.4	23.5	n.a.
Indirect business tax and nontax receipts	14.6	15.3	16.8	14.0	15.2	15.0	15.3
Contributions for social insurance	18.5	21.8	22.4	20.3	20.5	20.5	20.7
Total	107.5	111.1	110.8	105.3	108.4	107.8	n.a.
Receipts: including the effects of the Revenue Act of 1962 and the 1962 Administrative depreciation reform							
Personal tax and nontax receipts	47.8	50.1	48.8	48.0	49.3	48.8	50.0
Corporate profits tax receipts	21.9	21.7	23.3	21.5	21.4	21.0	n.a.
Indirect business tax and nontax receipts	14.5	15.3	16.8	14.0	15.2	15.0	15.3
Contributions for social insurance	18.5	21.8	22.4	20.3	20.5	20.5	20.7
Total	102.7	108.9	111.4	103.8	106.4	105.3	n.a.
Expenditures:							
Purchases of goods and services	59.8	64.4	63.2	61.0	62.1	62.7	63.4
National Defense	51.2	54.9	57.8	53.0	55.3	54.0	51.2
Other	8.6	9.5	5.4	8.0	6.8	8.7	12.2
Less sales	0.6	0.7	0.0	0.0	0.0	0.0	0.0
Transfer payments	27.8	29.7	30.9	28.0	28.0	28.5	29.5
To persons	26.2	27.8	28.8	26.3	26.5	26.7	27.7
Foreign (net)	1.6	1.9	2.1	1.7	1.7	1.8	1.6
Grants-in-aid to State and local governments	7.3	7.8	8.8	7.5	7.8	7.5	8.0
Net interest paid	4.4	4.3	4.0	4.0	4.0	4.0	4.0
Subsidies less current surplus of government enterprises	4.2	4.8	3.8	4.3	4.3	4.3	4.3
Total	105.7	113.2	112.0	103.8	104.9	105.5	112.0
Surplus (+) or deficit (-) excluding the effects of the Revenue Act of 1962 and the 1962 Administrative depreciation reform¹	-8.3	-2.1	-5.2	-2.4	-0.7	-0.9	n.a.
Surplus (+) or deficit (-) including the effects of the Revenue Act of 1962 and the 1962 Administrative depreciation reform	-1.7	-4.3	-7.6	-3.8	-3.4	-2.9	n.a.

1. See footnote 1, Table 1.

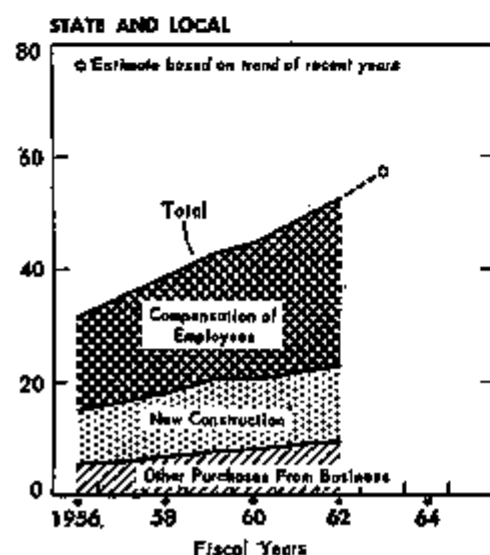
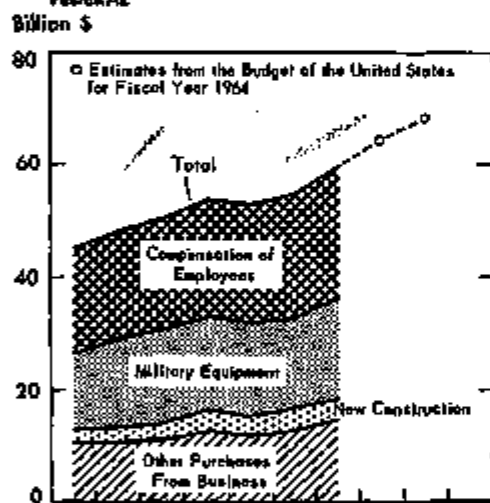
Sources: "The Budget of the United States for the Fiscal Year Ending June 30, 1964"; Office of Business Economics, U.S. Department of Commerce.

Other Federal expenditures to rise

Government expenditures, aside from influencing GNP directly through the purchase of goods and services, contribute to final demand indirectly through various other types of programs which enter the income stream, such as transfer payments, grants-in-aid to States, subsidies, etc. These programs are scheduled to rise by a total of \$2 billion in fiscal 1964. This is somewhat less than the rise in their combined cost in fiscal 1962 or that estimated for fiscal 1963. The major reason for this change is the decline budgeted for subsidies and the lower rate of increase in transfer payments.

GOVERNMENT PURCHASES OF GOODS AND SERVICES

Upward Move Is an Important Factor in Rising Final Demand
FEDERAL



Subsidies are expected to fall almost 3 billion below fiscal 1963 levels, mainly because the full-year impact of the postal rate increases which came into effect January 1963 will be felt in fiscal 1964 and will reduce the post office deficit significantly.

Transfer payments to persons are scheduled to rise by \$1 billion as compared with an increase of \$1½ billion in fiscal 1963. The lower rate of increase is due to an expected reduction in unemployment benefit payments, partly because business conditions are expected to improve and partly because Congress did not renew the temporary extended unemployment compensation program. In addition OASI benefit payments are to increase less in fiscal 1964 than in the preceding year when the effects of the Social Security Amendments Act of 1961 were still being absorbed. Also, in fiscal 1963, payments of special and accelerated veteran's insurance dividends were authorized, while no such payments are budgeted for 1964. Research and development contracts awarded to individuals and nonprofit institutions, expenditures for which are included in transfer payments, are the only major category estimated to rise at a faster pace than in the preceding year.

Grants-in-aid to State and local governments are slated to rise by \$1 billion. A large part of this increase is for the highway construction program and the accelerated public works program enacted last year. New legislation is proposed for increased payments to the District of Columbia, assistance to schools in federally affected areas, and a new education program.

The expected increase in the Federal deficit will result in a higher national debt, which in turn will bring about an increase in interest payments of about \$½ billion.

For the near term, the estimates for fiscal 1963 show that during the current and the next quarter, Federal receipts on a national income basis (including the effects of the 1962 tax program) are to rise, on the average, by \$1½ billion a quarter (annual rates). Most of this rise, however, will be concentrated in the current quarter, at the beginning of which a statutory rate increase in

Table 4.—Defense Department Budgetary Expenditures, Military Functions and Military Assistance, Fiscal Years 1962-1964

(Billion dollars)			
	1962 actual	1963 estimate	1964 estimate
Total	48.3	55.1	53.4
Military personnel	12.0	13.1	14.3
Operation and maintenance	11.0	11.5	11.7
Procurement	14.5	15.5	14.4
Aircraft	6.4	8.0	6.1
Missiles	8.4	3.8	3.7
Ships	1.9	2.3	2.6
Ordnance vehicles, etc.	1.1	1.0	2.0
Electronics and communications	1.1	1.3	1.3
Other	0.5	0.8	0.8
Research, development, test and evaluation	6.8	6.8	7.1
Construction, military	1.3	1.2	1.2
Family housing	0.1	0.5	0.7
Civil defense	0.1	0.2	0.2
Revolving and management funds	-0.1	-0.3	-0.5
Military assistance	1.4	1.3	1.4

Source: The Budget of the United States for Fiscal Year ending June 30, 1963 and Department of Defense.

social security tax contributions became effective. This increase will raise the level of social insurance contributions by about \$2 billion at annual rates. Expenditures, which in the fourth quarter of 1962 ran at \$112 billion would have to increase on the average by \$2½ billion a quarter if the Budget estimates are to be realized. Most of this increase would come in purchases of goods and services, which should go up \$1½ billion a quarter. Since the estimated increase in expenditure exceeds that in receipts, the deficit would widen from its current estimated level of about \$4½ billion by an average of approximately \$½ billion a quarter.

State and local expansion to continue

As in past years, steadily increasing demand for goods and services by State and local governments is expected to reinforce Federal buying considerably. Based on past trends, it is expected that State and local purchases would rise by about \$4½ billion during fiscal 1964. Thus all government units combined would contribute \$8½ billion toward the expected expansion in final demand.

New construction outlays, for highways, schools, sanitary facilities and area redevelopment would contribute heavily to the general rise in expenditures. In addition, payrolls are ex-

(Continued on page 19)

New Cars: The value of the net change in new car inventories was obtained by multiplying the change in the number of cars in dealers' inventories by the average cost value per car. The number of cars held in franchised dealers' inventories for the period back to 1951 was obtained from trade journals. Estimates for the preceding periods were based on the implicit inventory changes derived by subtracting dealers' domestic sales and exports from factory sales. The average cost value per car in dealers' inventories was estimated by dividing the wholesale value of new cars sold by U.S. assembly plants, by the number of cars sold as indicated in the factory sales series; both of these time series are published in *Automobile Facts and Figures, 1962*. The computed average cost value was adjusted to include the estimated freight costs to the dealer.

Used Cars: The number of used cars held in inventories by franchised new car dealers is available back to 1951 in trade journals. This series was increased to include the inventories of used car dealers on the basis of Census Bureau information which showed for 12 quarters between 1954 and 1957, the number of used cars held by used car dealers. The average ratio of used cars held by both new car and used car dealers, to the used car inventories of new car dealers only in this 1954-57 period provided the adjustment factor for estimating the inventories of non-franchised dealers used for other periods.

The average cost per used car in franchised new car dealers' inventories for the period back to 1951 was obtained from the National Automobile Dealers Association report, "Operating Averages for the Automobile Retailing Industry". There is no comparable information for used car dealers but informed sources at NADA were of the opinion that the average cost of used car inventories would be about the same for both types of dealers.

Multiplying the total number of used cars held by all dealers, by the average cost per unit yielded a value series for the period 1951 to date. The total value of both new and used car stocks for

yearend 1951 was extrapolated back on the basis of wholesale automotive paper held by finance companies. The new car inventory estimates, described above, were then subtracted from this extrapolated new and used car inventory total yielding the used car inventory estimate as a residual for the pre-1951 period.

Exports and imports

Data were obtained from the Bureau of the Census publications, *Quarterly Summary of Foreign Commerce of the United States*, table 3 (for exports), and table 5 (for imports); *United States Exports of Domestic and Foreign Merchandise—Commodity by Country, FT 410*; and *United States Imports of Merchandise for Consumption—Commodity by Country of Origin, FT 110*. Exports include the categories, new automobiles, used automobiles, and engine bodies and parts ready for assembly (knocked-down autos). Imports include new automobiles and used automobiles.

Seasonal adjustment

The derivation of seasonal factors for the various series comprising the auto product was done by the Census Method II Program. A description of the methodology is available from the Bureau of the Census on request. The seasonal factors were reviewed and modifications made in a few instances where necessary. In the case of the principal component series—domestically produced new cars—the number of units and the average price per unit were separately adjusted for seasonal variation. A trading-day adjustment was made in the number series prior to seasonal adjustment. The unadjusted quarterly data are available on request.

Deflation

New cars, domestic: This current dollar series was deflated by an unpublished seasonally adjusted consumer price index for new cars compiled by the Bureau of Labor Statistics.

New cars, foreign, and imports: In the absence of a suitable composite price index for imported cars, it was

assumed that such an index could be approximated for recent years (when imports rose significantly) by the movement of the port-of-entry prices of Volkswagens. This is a fairly standardized car and constitutes the largest selling imported car. This series was available from *Automotive News* for the period 1957-1962. For the years prior to 1957, when the volume of imported cars was very small, the wholesale price index for U.S. motor vehicles was used.

Used car margins: The deflated series was derived as a product of the 1954 average margin per used car—adjusted to exclude excessive trade-in allowance—and the number of used cars sold.

Change in business inventories and Exports: Both of these series were deflated by the BLS wholesale price index for motor vehicles.

Government Programs

(Continued from page 12)

pected to continue to advance, reflecting both steady addition to State and local employment and higher wage rates.

It is difficult to project State and local government receipts over the next year and a half. Sales and income taxes would generally rise about in line with the expected expansion in economic activity. However, passage of the Administration's tax program may automatically yield additional revenues to State and local governments. Where Federal taxes are deductible under State income tax laws, a reduction in Federal tax payments will automatically increase taxable incomes for State and local tax purposes. In addition, many States follow the Federal format in allowing deductions. Structural reforms tightening deductions allowable under the Federal tax laws, also would give increased revenues to these States. Since State and local governments have actually more projects on hand than they are able to finance readily, a large proportion of any increase in revenues may go for higher expenditures. Thus it would be reasonable to expect the continuation of a small short-fall in aggregate receipts over expenditures of State and local government units.